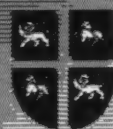


The Department of Finance Annual Report



GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR
Department of Finance

Year Ended 31 March, 2005

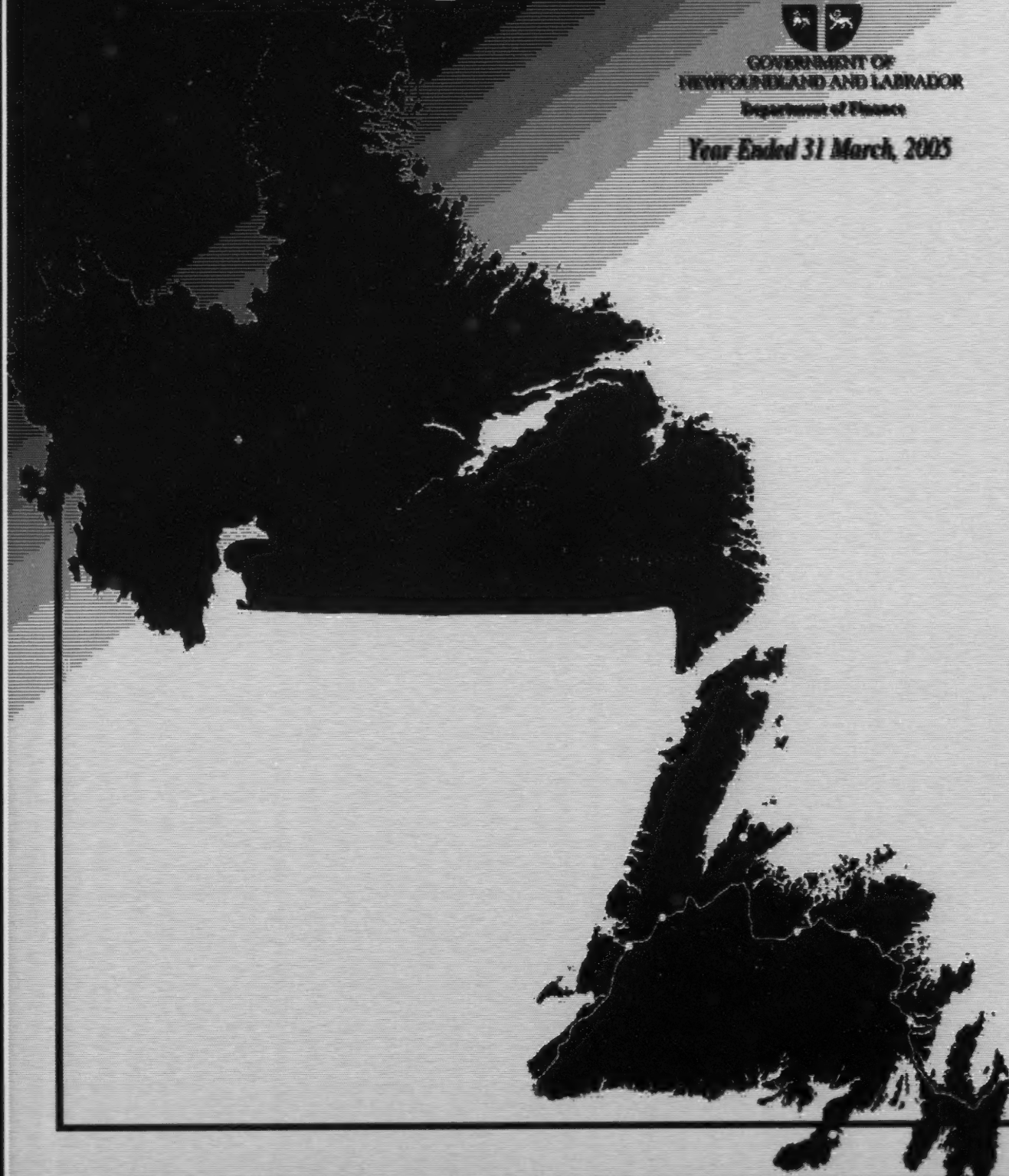




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Transmittal Letter

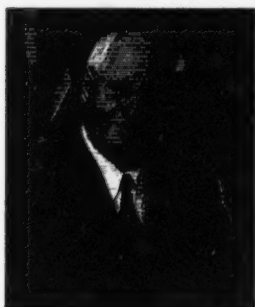
Mr. Speaker,

In accordance with government's commitment to greater accountability, I hereby table the 2004-05 Annual Report for the Department of Finance. This report was prepared under my direction and addresses the department's activities and outcomes from 1 April, 2004 to 31 March, 2005.

Loyola Sullivan
Minister of Finance

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Message from the Minister



As Minister of Finance it is my pleasure to present the 2004-05 Annual Report for the Department of Finance.

The most public work of the department is preparation and delivery of the annual provincial budget, but there is much more to the Department of Finance. As outlined in this report, the department also works in the areas of fiscal and taxation monitoring and policy development, managing the provincial debt, administering the provincial pension plans, and economic and statistical research.

This past year, we continued to make progress addressing the province's fiscal situation, but we know our work is far from over. We still face high deficit and debt levels which includes our seriously under funded pension plans. Government is working hard to address this situation, and with continued monitoring and vigilance, the fiscal position of the province will continue to improve.

In 2004-05, we witnessed an historic event for our province, an event which was certainly a highlight of the activities for the Finance Department this past year. On January 28, 2005, Premier Williams and Prime Minister Martin reached an agreement which will see Newfoundland and Labrador become the principal beneficiary of our offshore resources. As Minister of Finance I was privileged to be involved in the discussions and successful conclusion, but the work would not have been possible without the support and effort of the employees of the department, and I thank them for their efforts.

Subsequent to March 31, 2005, the mandate of the Department of Finance was expanded. In May 2005, Government dissolved Treasury Board Secretariat with the functions being transferred to the Department of Finance and to a new Public Service Secretariat. Under the restructuring, all corporate financial operations are now the responsibility of the Department of Finance. In addition to maintaining its former operations, the department is now also accountable for the Budgeting and Insurance Divisions and the Office of the Comptroller General, formerly part of Treasury Board Secretariat.

The accomplishments and achievements of the past year would not be possible without the combined effort of all the employees in the Department of Finance. As Minister, I see first-hand the efficiency, thoroughness and professionalism our employees exhibit in their work everyday. I thank you for your continued hard work and dedication, and I look forward to continuing to work with you in the coming year.

Sincerely,

A handwritten signature in cursive script that reads "Loyola Sullivan".

Loyola Sullivan
Minister

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Departmental Overview

Vision

It is the vision of the Department of Finance to ensure sufficient financial and economic resources are available to promote prosperity and well-being among the people of the province of Newfoundland and Labrador.

Mission

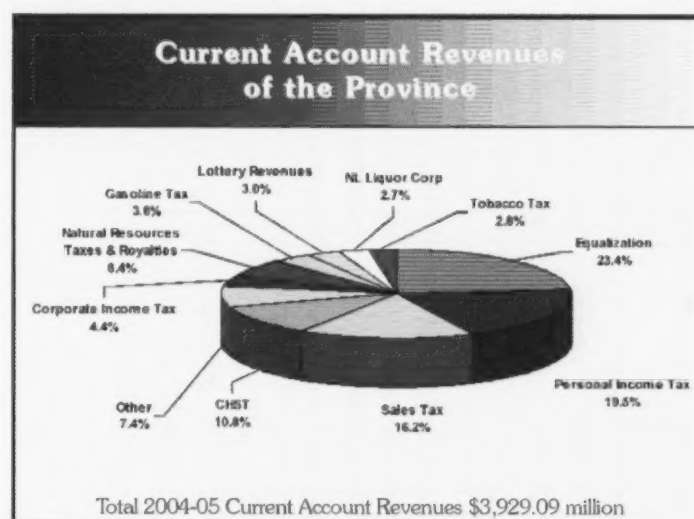
The mission of the Department of Finance is to provide the necessary financial and economic resources to effectively support government programs and policy development within a responsible fiscal framework, while ensuring the tax system is fair to all taxpayers.

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The Department of Finance, created by a separate Order-in-Council under the Executive Council Act, is one of two agencies responsible for the provision of financial services necessary to support all government activities and programs. The department is responsible for the following:

- taxation policy analysis;
- current account revenue forecasting and monitoring;
- federal-provincial fiscal arrangements;
- financial analysis of the impact of specific projects on the economy;
- the borrowing, cash management and debt servicing programs of government including its municipal lending agency, Newfoundland and Labrador Municipal Financing Corporation;
- the administration of government's internal pension programs;
- the collection and administration of all provincial tax programs;
- analysis of the provincial economy; and
- statistical data collection and dissemination.

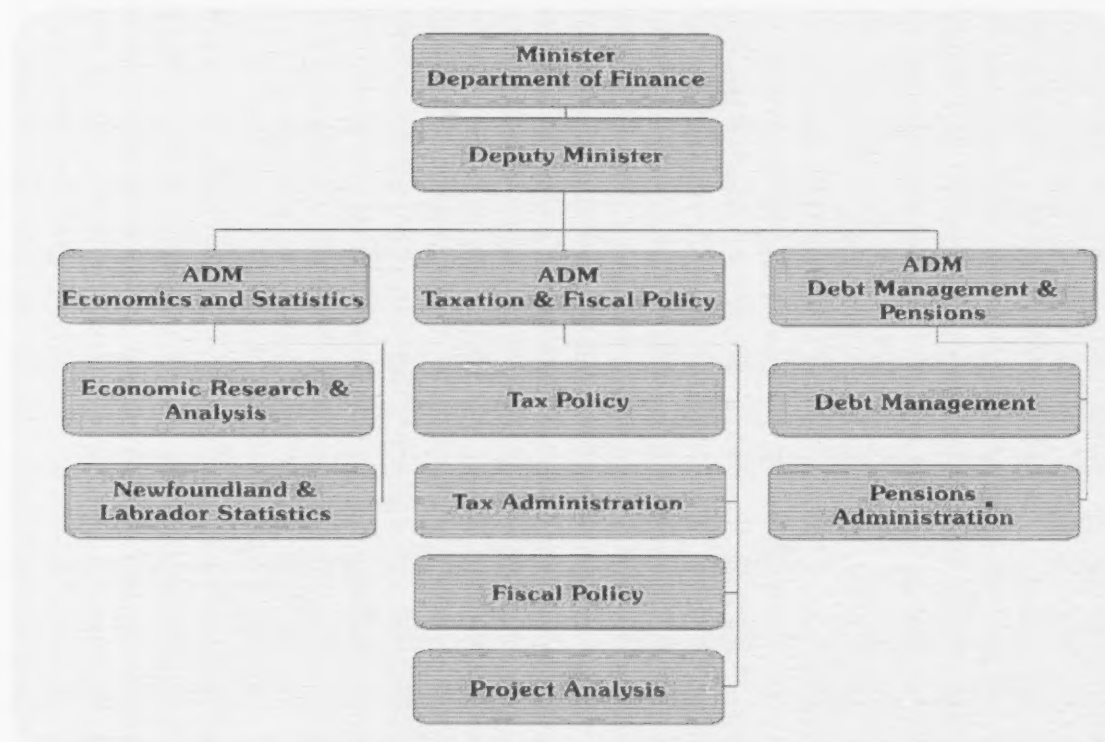
The department has stewardship over substantially all of the current account revenue generated by the province which, for the fiscal year ended 31 March, 2005, was approximately \$3.9 billion¹ broken down as follows:



¹ All expenditure and revenue figures (cash-based) included in this document are based on the Public Accounts.

Organizational Structure

The Department of Finance has three separate branches: Debt Management and Pensions Administration; Taxation and Fiscal Policy; and Economics and Statistics. Each is responsible to an Assistant Deputy Minister, reporting to the Deputy Minister of Finance who, in turn, is responsible to the Minister. In addition, the Ministry is responsible for several boards, agencies and commissions including Newfoundland and Labrador Municipal Financing Corporation, Newfoundland and Labrador Industrial Development Corporation, Newfoundland and Labrador Liquor Corporation, Atlantic Lottery Corporation, Newfoundland Government Fund Limited and the C.A. Pippy Park Commission. The chart below outlines the organizational structure of the Department of Finance.



Lines of Business

Debt Management and Pensions Administration Branch

Debt Management

Administration of the province's borrowing and debt servicing programs, including cash management and the investment of trustee assets, and the operation of government's senior financial assistance programs, involving loan guarantees, direct loans and equity investments.

Pensions Administration

Administration of government's internal pension program, including the delivery and communication of benefit services and the investment of related trustee assets.

Taxation and Fiscal Policy Branch

Fiscal Policy

Negotiation and administration of all programs under federal-provincial fiscal arrangements; forecasting and analysis of provincial revenues; coordination of the annual budget speech and pre-budget consultation process; and analytical support for the development of government's fiscal policy.

Project Analysis

Analysis of the financial and economic impact of specific projects to assist government in policy development.

Tax Policy

Analysis and assessment of the implications of changes to existing provincial taxation policies, options for taxation reform and new revenue proposals, and the negotiation and monitoring of federal-provincial tax agreements.

Tax Administration

Administration and collection of various provincial taxes and incentive programs including: tobacco tax, gasoline tax, health and post secondary education tax, mining and mineral rights tax, insurance companies tax, utilities tax, financial corporations capital tax, retail sales tax, the direct equity tax credit program and the fuel oil tank replacement and rebate programs.

Economics and Statistics Branch

Economic Research and Analysis

Analysis and forecasting of the macroeconomic environment; provision of specific macroeconomic analysis and studies related to policy and project impact assessments. Responsible for both the Newfoundland and Labrador Econometric and Input/Output Models, as well as, the Population Projection Model and demographic analysis. Also responsible for the publication of the budget document, *The Economy* and the mid-year review report, *The Economic Review*.

Newfoundland and Labrador Statistics

Government's central source for data collection and information resources produced by Statistics Canada. Statistical and analytical services, including the development of specific provincial data and other unique information necessary for government's policy development and analysis.

Legislation Stewardship

The department is responsible for the following pieces of legislation:

C.A. Pippy Park Commission

- Pippy Park Commission Act

Debt Management Division

- Industrial Development Corporation Act
- Municipal Financing Corporation Act
- The Loan Act
- The Loan and Guarantee Act, 1957
- The Local Authority Guarantee Act, 1957
- Financial Administration Act (Part IV-Public Debt)
- The Loan (Canada Pension Plan Investment Fund) Act

Newfoundland and Labrador Statistics Agency

- Statistics Agency Act

Newfoundland Liquor Corporation

- Liquor Corporation Act
- Liquor Control Act

Pensions Administration Division

- Government Money Purchase Pension Plan Act
- Members of The House of Assembly Pensions Act
- Pensions Funding Act
- Public Service Pensions Act, 1991
- Teachers Pensions Act
- Uniformed Services Pensions Act
- The Portability of Pensions Act
- Provincial Court Judges' Pension Plan Act

Tax Administration Division

- Financial Corporations Capital Tax Act
- Gasoline Tax Act
- Health and Post-Secondary Education Tax Act
- Horse Racing Regulation and Tax Act
- Insurance Companies Tax Act
- Mining and Mineral Rights Tax Act
- Retail Sales Tax Act
- School Tax Authorities Winding Up Act
- Tax Agreement Act
- Taxation of Utilities and Cable Television Companies Act
- Tobacco Tax Act

Tax Policy Division

- Income Tax Act
- Lotteries Act
- Offshore Area Corporate Income Tax Act
- Labour-Sponsored Venture Capital Tax Credit Act

Budgetary Allocation

The financial activity for the Department of Finance for the year ended 31 March, 2005 showed gross expenditures of \$52.6 million, offset by related revenue of \$54.1 million. This net revenue of \$1.5 million is outlined in the following table and is compared to the department's original budget tabled in the House of Assembly in March 2004.

TABLE 1

Department of Finance Departmental Budget For the year ending 31 March, 2005		
Expenditures	Budget \$	Actual \$
Operating Salaries	6,689,000	6,224,385
General Operating	989,300	954,701
Professional Services	76,100	166,155
Grants, Allowances and Assistance (see Table 2)	4,773,000	2,375,213
Information Technology	899,700	463,568
Capital	90,000	61,226
Government Personnel Costs (see Table 3)	45,344,400	40,392,332
Pensions Administration	2,281,600	1,995,831
Gross Expenditures	61,143,100	52,633,411
Related Revenue (see Table 4)	(52,079,000)	(54,085,156)
Net Expenditures (Revenues)	9,064,100	(1,451,745)

Included in the department's statement of expenditures and related revenues are operating grants to the C.A. Pippy Park Commission and special assistance related to the government's fuel oil tank replacement program. The following table compares the actual expenditure with the original budget estimates.

TABLE 2

Department of Finance Grants, Allowances and Assistance Budget For the year ending 31 March, 2005		
	Budget \$	Actual \$
Allowances for the Fuel Oil Tank Replacement Program	370,000	222,213
Operating Grant to Pippy Park Commission	400,000	400,000
Financial Assistance	4,000,000	1,750,000
Other	3,000	3,000
Total Grants, Allowances and Assistance	4,773,000	2,375,213

As well as the operating expenditures of the department, all costs relating to universal employee benefit programs paid by government as the employer, for its employees, are centralized as government personnel costs in the Department of Finance. These include Employment Insurance (EI), the Canada Pension Plan (CPP), and group health benefits. Also, payments relating to pay equity arrangements and various salary anomalies for all government employees have been centralized in the Department of Finance.

TABLE 3

Department of Finance Government Personnel Costs Budget For the year ending 31 March, 2005		
	Budget \$	Actual \$
Salaries	1,886,200	0
Employee Benefits:	35,777,000	33,556,093
EI	7,345,800	6,271,585
CPP	12,259,000	11,190,766
Group Medical	14,890,100	14,650,412
Group Life	1,282,100	1,443,330
Health and Post Secondary Employment Tax (Payroll Tax)	7,000,000	6,836,239
Worker's Compensation	400,000	0
Labrador Benefits	281,200	0
Total Expenditures	45,344,400	40,392,332

In addition to recovering all costs related to administering government's pensions program, the department collects revenues from Crown Agencies, primarily Newfoundland and Labrador Hydro which paid \$50.7 million in dividends during the 2004-05 fiscal year.

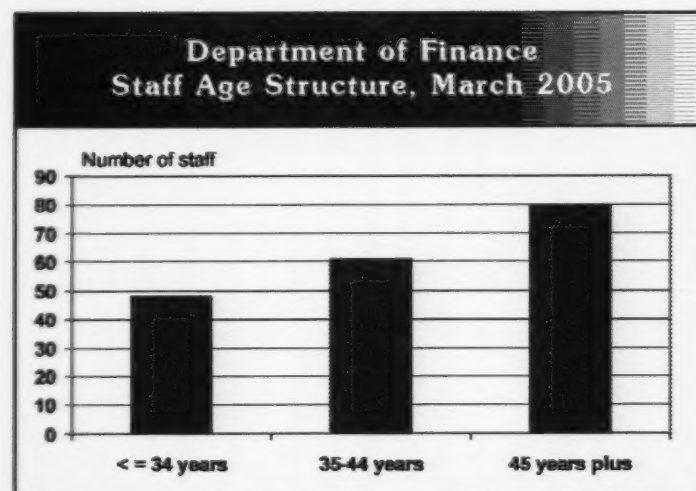
TABLE 4

Department of Finance Related Revenue Budget For the year ending 31 March, 2005		
	Budget \$	Actual \$
Cost Recoveries:	3,974,000	3,119,258
Pensions Administration	2,281,600	2,131,049
Debt Management	317,000	298,978
Economics and Statistics	1,375,400	689,231
Dividends of Newfoundland and Labrador Hydro	47,900,000	50,712,542
Other	205,000	253,356
Total	52,079,000	54,085,156

Human Resources

The department's staff has a wide and varied knowledge base accumulated through a combination of education and experience. At the end of March 2004, the department had 164 employees compared to 189 employees at the end of March 2005. The increase in the number of employees was due to the establishment of a telephone survey/data collection centre at the Newfoundland and Labrador Statistics Agency. The centre is maintained by project funding (see page 27 for further details).

As identified in the 2002 departmental Human Resources Plan, the department has an aging workforce. Approximately 22 employees are anticipated to retire in the next four years. A strategic approach is required to arrange for the orderly replacement of retiring employees. The following table outlines the age structure of the department's staff complement at the end of March 2005:



Source: Human Resources Reporting System, Human Resources Policy and Planning Division, Public Service Secretariat

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Shared Commitments



***The department works closely
with numerous organizations
and associations***

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Some of the most significant partnerships and client initiatives in 2004-05 include:

Cash Management and Pensions

While Treasury Board is responsible for government's budgeting process, Public Accounts, and all matters related to collective bargaining within the public service, the Department of Finance is responsible for the province's cash management program, capital market borrowing activities, debt servicing, and the administration of government pension programs. The department provides all necessary advice and direction to assist Treasury Board in its development of the annual budgets and formulating collective bargaining positions relating to government's pension programs.

Economic Forecast Preparation

The department works closely with several government departments to obtain information critical to the provincial economic forecast. These include the Departments of Fisheries and Aquaculture (e.g., information on fish landings); Natural Resources (e.g., newsprint outlook, oil and mineral production and employment); Tourism, Culture and Recreation (e.g., tourism expectations); and Innovation, Trade and Rural Development (e.g., call centre activity). The same departments are also called upon for information and consultation during the preparation of the budget publication, *The Economy* and the mid-year report, *The Economic Review*. In addition to consulting with government officials during the preparation of its economic forecasts, the department seeks the opinions of other industry experts. Some examples include: the Conference Board of Canada (e.g., exchange rates and energy prices); major commercial banks; Canada Mortgage and Housing Corporation; the Canada—Newfoundland and Labrador Offshore Petroleum Board; and the Canadian Manufacturers and Exporters, Newfoundland and Labrador.

Fiscal Arrangements

While the department has direct responsibility for administering tax programs and federal-provincial transfer arrangements, there is ongoing liaison with the Intergovernmental Affairs Secretariat on various federal-provincial issues, particularly in preparation for the Annual Premiers' Conferences, First Minister's meetings and other similar events. The development of provincial tax policy can also involve most government departments especially those involved in resource management with responsibility for large projects such as Voisey's Bay and offshore oil. In addition, there is regular interaction with Treasury Board as revenue estimates are prepared and monitored by the Department of Finance as part of the overall budget process. Finally, both organizations are involved in the pre-budget consultations and preparations for the annual budget speech.

Canadian Century Research Initiative (CCRI)

A six-year initiative has been undertaken in partnership with Memorial University and six other universities across Canada and Statistics Canada (STC) to make historic Census data available for use on computers. Previously the data were only available on microfilm and stored in STC or other archives across Canada. This \$15 million project which is funded by the Canadian Foundation for Innovation will see the data entered into computer data bases and subsequently made publicly available. NLSA is responsible for handling all data for Atlantic Canada. A data entry center has been established and staffed with seven persons. A grand opening was held in December and was well attended by persons from Government, Memorial and other Universities and interested agencies across Canada. When available the data will be useful for individuals, researchers and policy makers in answering many questions regarding the evolution and development of our society and economy that have not been explored before. This initiative will make a significant contribution to the development of knowledge for Newfoundland and Labrador and the other Atlantic Provinces.

The "Ex-Patriot Survey"

This year a major survey of persons who have moved away from the province since 1996 was carried out. The "Ex-Patriot Survey" was undertaken in collaboration with the Department of Human Resources, Labour and Employment. The survey provides a wide range of information on those who have left the province, their reasons for leaving, what they have done since leaving, their future intentions and many other relevant topics. Some 15,000 persons were called and the response was very positive. The survey is the only source of such information and is a unique source on data on Newfoundlanders and Labradorians who have moved outside the province.

The Atlantic Canada Community Accounts

Work is underway to extend the Community Accounts to the Atlantic Canada level. The feasibility is being explored in partnership with Memorial University, Dalhousie University, the Government of Nova Scotia, interested groups in Prince Edward Island and New Brunswick. The extension of the system would provide governments, business developers and citizens across the region with access to comparable data and social and economic indicators. If a decision is made to proceed, the outcome would be a significant contribution to knowledge of the provinces and evidence based decision making.

Submission to Marine Atlantic Incorporated Advisory Committee

In December 2004, the Economic Research and Analysis Division collaborated with the Department of Tourism, Culture and Recreation, the Department of Transportation and Works and the Department of Justice in the preparation of Government's submission to the federal Marine Atlantic Incorporated Advisory Committee concerning the future of the Marine Atlantic Service. This policy research included estimating the direct, indirect and induced value of the Marine Atlantic service itself, an estimate of the impact of increasing or declining non-resident tourism visits by auto and the negative economic impact of ferry rate increases. This research yielded persuasive evidence which enabled the Government of Newfoundland and Labrador to more effectively make its case to the Government of Canada concerning Marine Atlantic's vital role in supporting economic development in the province.

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Highlights and Accomplishments



*The department discusses
a number of achievements
during the year*

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Legislation Update

The following measures were introduced before the House of Assembly and subsequently given Royal Assent during 2004-05.

The Loan and Guarantee Act, 1957

- To amend the Act to ratify new loan guarantees and extensions of certain existing guarantees.

The Local Authority Guarantees Act, 1957

- To amend the act to ratify loan guarantees which provide the interim financing for municipal capital projects.

The Loan Act, 2004

- To provide authority for the province's 2004-05 capital market borrowing program.

Income Tax Act

- To provide a tax credit for former post-secondary students who are repaying the Newfoundland and Labrador portion of their student loans. This credit was in place for just the 2004 taxation year.
- To provide for a personal income tax reduction for low income families. This reduction will eliminate provincial income tax for individuals with net income up to \$12,000 and for families with net income up to \$19,000. Partial tax reductions will be received by individuals with net income up to \$14,600 and for families with net income up to \$21,900.
- To index the Seniors' Benefit to the provincial consumer price index commencing in October 2004. The benefit amount increased from \$350 to \$360 for eligible single seniors and from \$700 to \$720 for eligible senior couples.

Tobacco Tax Act

- To increase tobacco tax from 15.0 to 16.0 cents per cigarette, and from 15.0 to 20.0 cents per gram.

Labour-Sponsored Venture Capital Tax Credit Act

- To implement a tax credit for eligible investors in corporations who qualify for designation as labour-sponsored venture capital corporation. This credit came into effect on 1 January, 2005

Federal-Provincial Fiscal Arrangements

The Equalization program traditionally has been reviewed and updated on a five year cycle through a formal process that involves provinces, territories and the federal government. This process was concluded in 2003-04, with the most recent renewal enacted by the federal government to have effect from April 1, 2004 and to have application for the next five years.

However, in October 2004 the federal government imposed a new "framework" for Equalization that involves a federally appointed independent panel examining how to approach Equalization in the future. This panel is expected to report before the end of the calendar year 2005. Interim measures were imposed to deal with key issues like the allocation of Equalization transfers among recipient provinces. Great uncertainty has been created about the province's future entitlements.

In September 2004 following several years of intense lobbying by provinces and territories, the federal government increased transfers delivered through the Canada Health Transfer (CHT) to help account for the rising costs of health care. A series of increases have been put in place that will unfold over the next 10 years. The province will see higher CHT transfers as a result, although whether these amounts will be sufficient to ameliorate constantly growing health care costs remains to be seen.

On 14 February, 2005 the province and the federal government signed an agreement to update the Atlantic Accord to ensure the province will be the principal beneficiary of its offshore petroleum resources. The province's objective is to increase its fiscal returns from the offshore, net of Equalization. Part of the agreement is that the province is to receive a \$2 billion advance payment of the benefits it would receive over the first eight years on the updated Accord.

Budget Preparation and Consultations

As part of the 2005 budget consultation process, a series of public meetings were organized by the department. The purpose of these meetings was to provide the public with an opportunity to identify priorities for the 2005 Budget. Public meetings were held in nine communities throughout the province: St. John's, Clarenville, Gander, Grand Falls-Windsor, Stephenville, Corner Brook, St. Anthony, Happy Valley-Goose Bay and Labrador City. In addition to these meetings, sectorial discussion took place with representatives from the regional health care boards and regional education boards. Further, as part of the budget consultation process, the department received numerous written briefs, e-mails, faxes and telephone calls from residents offering their suggestions on budget priorities. The 2005 Budget was delivered in the House of Assembly on 21 March, 2005.

Incentive and Benefit Programs

Newfoundland and Labrador Seniors' Benefit

The 2004 Budget announced that the Newfoundland and Labrador Seniors' Benefit would be indexed to the Consumer Price Index commencing in 2004. As a result, the benefit amount increased from \$350 to \$360 for eligible single seniors and increased from \$700 to \$720 for eligible senior couples. The total amount paid in October 2004 was \$7.7 million.

Newfoundland and Labrador Child Benefit

The 2004 Budget announced that the Newfoundland and Labrador Child Benefit would be indexed to the Consumer Price Index commencing in 2004. The budget also announced an increase in the amount for the first child. The table below shows the benefit rates for 2003-04 and 2004-05.

	2003-04	2004-05
First Child	\$234	\$250
Second Child	\$321	\$326
Third Child	\$345	\$350
Fourth Child or More	\$370	\$375

The total paid in the 2004-05 fiscal year was \$8.3 million.

Low Income Tax Reduction

The 2004 Budget announced the introduction of a Low Income Tax Reduction program commencing on 1 January, 2005. This program will eliminate provincial income tax for individuals with net income up to \$12,000 and for families with net income up to \$19,000. Partial tax reductions will be received by individuals with net income up to \$14,600 and for families with net income up to \$21,900. This program will put about \$5 million back into the hands of low income individuals and families.

Labour-Sponsored Venture Capital Tax Credit

The Labour-Sponsored Venture Capital Tax Credit program is effective 1 January, 2005. The purpose of the program is to encourage incremental business activity in key sectors of the economy. This program provides a provincial personal income tax credit equal to 15 percent of the investment made by an individual into a registered labour-sponsored venture capital corporation. Investors may also avail of a 15 percent federal tax credit and the investment may be RRSP deductible. The maximum annual tax credit per individual is \$750, plus the federal matching credit of \$750.

Equity capital raised in the province on or after 1 January, 2005 by a labour-sponsored venture capital corporation must be invested in eligible business entities in the province at a rate of 40 percent within 12 months after the end of the taxation year in which it was raised. Within the following 12 months 60 percent has to be invested and then within the next 12 months, and all subsequent years, 75 percent has to be invested. Eligible business entities must be in certain selected growth areas of the economy.

Home Heating Fuel Rebate

Government implemented a \$250 rebate for low-income individuals and families who use home heating fuel as the primary method to heat their homes. Only one person per household was permitted to apply for the rebate. In order to have received this rebate, the applicant or his/her spouse must have received any portion of the provincial HST Credit, the Newfoundland and Labrador Seniors' Benefit, the Newfoundland and Labrador Child Benefit, or basic Income Support since July 2004.

Small Business Deduction Threshold

In the 2003 budget, the department announced that beginning in 2003, the small business deduction limit would be increased over the next four years, in increments of \$25,000 per year, until it reaches \$300,000.

Consequently, the small business deduction limit was \$225,000 in 2003 and \$250,000 in 2004. It increases to \$275,000 for 2005, and will be \$300,000 in 2006 and each year thereafter.

Tax Collection Agreement

The federal government and this province signed a new Tax Collection Agreement (TCA) on 21 January, 2005. The federal government administers and collects personal and corporate income tax on the province's behalf. The TCA sets out the principles and guidelines for that arrangement for both parties.

Credit Ratings

Annually, the Department of Finance meets with the three rating agencies which assess the credit worthiness of the province. These include two international firms: Standard & Poor's and Moody's Investors Service; and one Canadian firm, Dominion Bond Rating Service.

These meetings, involving senior officials of government, are part of the process whereby the rating agencies undertake a comprehensive review of the provincial economy and fiscal position in order to determine the province's credit rating. Subsequently, the agencies issue reports highlighting this fiscal review and assign a credit ranking to the province. These ratings are followed closely by the investment community, major financial institutions and the underwriters which purchase and distribute debenture issues of the province and those guaranteed debentures of Crown corporations—Newfoundland and Labrador Hydro and the Newfoundland and Labrador Municipal Financing Corporation.

Following their fiscal 2004-05 review process, the three rating agencies confirmed the province's existing ratings. These are: Standard & Poor's "A-"; Moody's Investors Service "A3"; and DBRS "BBB".

Economic Services

Economic services were provided to a broad clientele in 2004-05 including provincial government departments, municipalities, businesses, associations, students, and federal agencies. In addition to the annual publications *The Economy* and *The Economic Review*, the department also prepared an economic forecast for 2005 for the City of St. John's and a 20-year forecast for Newfoundland and Labrador Hydro. The department worked in conjunction with the Department of Tourism, Culture and Recreation to develop a framework for monitoring the impact of culture on the provincial economy. The department commenced work on updating the 2002 study of estimating the economic contribution of oceans related activity on the provincial economy and providing an estimate of the value of oceans related activity for the Placentia Bay region.

Demographic Projection Services

The department strived to ensure that policy makers have the best available demographic data for planning. In 2004-05 the department provided online population projections up to 2019 for the province and various sub-provincial regions. Health and school district regions were modified to reflect the restructuring of these administrative boards.

Statistical Services

This year in response to needs that have emerged, NLSA extended its capacity for data collection to include telephone interviewing. A centre was setup that can utilize as many as 40 interviewers on a 24 hour basis to collect data. The focus of this activity is to provide key business, social and economic data for the province that are not available from any other source. A computer based CATTI system has been installed for collecting data which greatly reduces the cost of data surveying. Activities of the centre are guided by the Statistics Act which mandate the Agency to collect and provide data. The service is also available government-wide for appropriate initiatives.

Internet Services

The department continued to provide an array of services and information online in 2004-05. During the year, there was an average of 31,500 "hits" per month to various pages on the department's main web site. This figure does not include traffic to several individual sites operated by the Economics and Statistics Branch. A further 10,500 hits were recorded per month to various budget documents housed outside of the main Finance web site.

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Strategic Issues and Outcomes



Strategic issues are those fundamental policy choices or critical challenges that must be addressed by the department to achieve its vision

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The Department of Finance has identified three key strategic issues which will be the focus of the department's activities over the next several years. Each issue is explained and the challenges and opportunities associated with each issue are discussed.

Strategic Issue 1:

How to increase federal transfer payments for social programs to an adequate level?

Federal transfer payments continue to be a significant part of the revenues for the province. All provinces and territories share the concern that federal transfers do not provide an adequate level of financial support for social programs. Federal health and social transfers provide support for provincially delivered health, education and social welfare programs. The 2004 budget estimated these transfers would provide \$404 million, against current account expenditures in these social program areas of over \$2.7 billion, a federal contribution of only a 15 percent share.

GOAL: *To increase the amount of federal transfer payments for social programs, particularly health care.*

Health care costs nationally have risen steeply since the mid 1990s, outpacing provincial revenue growth. With its 1994-95 budget, the federal government began implementing a plan to drastically reduce transfer payments for social programs as part of its efforts to reduce the federal deficit. Essentially, this action downloaded a substantial part of the federal deficit onto provinces and territories, who are responsible for the delivery of health care. Despite the escalation in health care costs, social program transfers are only now returning to their 1994-95 level, even though the federal deficit was eliminated by 1997 and the federal government has generated consistent surpluses since that time. The persistent reduced level of federal funding support has had a major impact on the ability of all provinces and territories to deliver adequate health care. Securing a greater share of health care funding from the federal government is the aim of all provinces and territories.

The objective for all provinces and territories is to have federal health and social transfers increased to a level that will represent 25 percent of social program expenditures for health, education and social services.

Provincial-territorial premiers and Finance ministers have become very active in pressing their provincial-territorial case with the federal government. Some success was achieved in early 2003, when a First Ministers meeting resulted in a new national Health Accord. However, while this is a step forward, all provinces and territories agree more needed to be done. By continually pressing the federal government about the need for more adequate health funding, and the funding needs of other social programs which also have not kept pace, provinces and territories hope to achieve more progress. This continues to be the key challenge in federal-provincial-territorial fiscal arrangements.

OUTCOME: *At the September 2004 First Ministers Meeting on Health, agreement was reached that will see federal transfers for health increased over a 10 year period.*

While the province will see federal cash transfers for health increased by an estimated \$630 million over 10 years, and this is welcome, it remains to be seen whether this will ameliorate sufficiently the rapid growth in health care costs experienced since the 1990s and forecast to continue into the future. Securing adequate funding for social programs will remain an ongoing issue for some time to come.

Provinces and territories have already begun to discuss what they see as the next priority in securing adequate federal transfers for social programs and that is the significant decline in federal funding support for post secondary education since the mid 1990s.

Strategic Issue 2:

How to ensure the financial stability of the provincial pension plans?

Historically, government pension plans have been underfunded as contributions from plan members and their employers have not been sufficient to finance the cost of benefits. Also, public sector unions and pensioners have brought pressure on government to provide pension indexing provisions comparable to other public sector plans in Canada.

The Goal: *To fully fund pension unfunded liabilities over a reasonable time within the province's fiscal capacity.*

In recent years, government and the public sector employees have made a concerted effort to address the unfunded pension liabilities by modifying benefits and increasing contributions. In addition, government is continuing to make special payments to the pension plans which in 2004-05 totalled \$156 million. While these efforts have increased the financial support for these plans, the unfunded pensions liabilities continue to be of major concern as they as they have grown to \$4.5 billion at 31 March, 2005.

The main plan, the Public Service Pension Plan, which covers approximately 26,000 employees of government and its agencies had an unfunded liability of \$1.9 billion at 31 March, 2005. However, members' contributions and those of their employers currently are in excess of the cost of benefits and these excess payments together with special annual payments of \$60 million are projected to ensure its financial stability.

The other plans, including the Teachers' Pension Plan, have had benefits modified and their contributions increased to partly address the unfunded pensions liabilities. However, these changes and government's commitment to a stream of special payments, which amounted to \$103.5 million in 2004-05, are not projected to finance the unfunded pension liabilities which totalled \$2.5 billion at 31 March, 2005. Based on existing special payment commitments made by government, the assets in these plans are projected to be exhausted by 2013, at the latest.

Strategic Issue 3:

How to meet the growing demand for business, economic, social and demographic statistics and analysis?

Increasingly policy makers and planners are demanding more detailed data and analysis specific to their needs. Data and other information may be requested along specific geographical lines (e.g., communities); along industry lines (e.g., oil industry impact); or relating to topics that have not been of significant interest in the past. In recent years the improved ability to handle and process large amounts of information has made such requests more attainable and this fact has increased the demand for better, more detailed and precise information for decision making purposes. In many cases, the data and information requirements are not readily available, and have to be collected and assembled into a user friendly format. These demands have brought greater pressure on the Economics and Statistics Branch, in particular from departments and groups outside the Department of Finance, by increasing the reliance on the department as the central statistical and economic agency of government.

The Goal: **To increase the information base and technological support within the Economics and Statistics Branch to meet the specific needs of government and other clients.**

The branch is working on a number of initiatives to achieve this goal. Policy or "issue specific" surveys such as the Survey of In and Out-Migrants, the Labour Activity Survey, and a range of other strategic data collection efforts are being administered to fill key information needs or gaps. Throughout 2004-05 planning was carried out for research partnerships between the department and other government departments on increasing the quantity and quality of available business and labour market information, including labour supply and demand statistics and "skills gaps" measurement. New information is being produced this year.

Efforts will continue to provide current economic and statistical information through the Branch's web sites. The Community Accounts and the GeoStats Geographic Information System (GIS) are providing sub-provincial data and analytical tools to meet new data and geographically based analytical requirements. The branch introduced population projections by health institutional boards, health and community service boards and school districts early in 2004 and in 2005, new estimates were provided to conform to new boundaries.

Proactive measures are also being put in place to ensure that the Branch identifies information requirements and data gaps in anticipation of the needs of clients, and adjusts its activities accordingly. Surveys, monitoring of policy direction, and consultations with industry leaders and government officials, are some of the approaches which continue to be used to identify emerging information requirements.

Contact Information



The Department of Finance

www.gov.nl.ca/fin

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1-877-729-1695
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**Newfoundland and Labrador
Statistics Agency**

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Facsimile: (709) 729-5149
E-mail: infostats@gov.nl.ca

Tax Policy

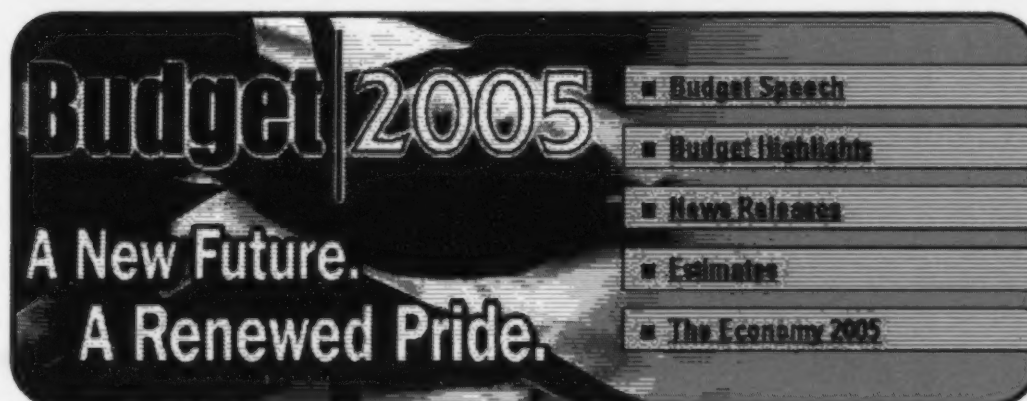
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Department Web Sites:

Main:	www.gov.nl.ca/fin
Economics:	www.economics.gov.nl.ca
Statistics:	www.stats.gov.nl.ca
Pensions:	www.gov.nl.ca/fin/pensions
Community Accounts:	www.communityaccounts.ca
GeoStats:	www.geostats.ca
Tax Administration:	www.gov.nl.ca/fin/etax

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Department Publications



*The department produces an
array of publications and
information bulletins*

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Financial

- Budget Speech
- The Department of Finance Annual Report

Taxation

- Tax Information Bulletins
 - Sales Tax
 - Gasoline Tax
 - Tobacco Tax
 - Health and Post Secondary Education Tax
 - Insurance Companies Tax
 - Utilities and Cable Television Companies Tax
 - Mining and Mineral Rights Tax

Pensions

- Plan Members Guide to the Public Service Pension Plan
- Annual Report for the province of Newfoundland Pooled Pension Fund
- Annual Report from the Government Money Purchase Pension Plan

Economic and Statistical

- The Economy
- The Economic Review
- Employment Insurance: Trends and Usage in Newfoundland and Labrador
- The Flashsheet (Labour Force and Consumer Price Index)

Annual Reports - Crown Agencies

- C.A. Pippy Park Commission
- Newfoundland and Labrador Liquor Corporation
- Newfoundland and Labrador Municipal Financing Corporation
- The Department of Finance Annual Activity Reports for Crown Corporations, Boards, Agencies and Commissions

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Financial Statements



***Enclosed is the Statement of
Expenditure and Related Revenue
(unaudited) for the Department of
Finance for 2004-05***

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DEPARTMENT OF FINANCE
Unaudited Statement of Expenditure and Related Revenue
FOR THE YEAR ENDED 31 MARCH 2005

		Estimates	
	Actual	Amended	Original
	\$	\$	\$
EXECUTIVE AND SUPPORT SERVICES			
MINISTER'S OFFICE			
CURRENT			
1.1.01. MINISTER'S OFFICE			
01. Salaries	201,088	202,300	202,300
03. Transportation and Communication	28,959	50,000	50,000
04. Supplies	4,614	5,000	5,000
06. Purchased Services	5,496	8,300	8,300
Total: Minister's Office	240,157	265,600	265,600
TOTAL: MINISTER'S OFFICE	240,157	265,600	265,600
GENERAL ADMINISTRATION			
CURRENT			
1.2.01. EXECUTIVE SUPPORT			
01. Salaries	641,187	641,800	618,800
02. Employee Benefits	490	800	300
03. Transportation and Communication	48,003	60,400	60,400
04. Supplies	3,119	3,400	2,400
06. Purchased Services	3,949	4,300	4,300
Total: Executive Support	696,748	710,700	686,200
1.2.02. ADMINISTRATIVE SUPPORT			
02. Employee Benefits	8,824	9,400	1,400
03. Transportation and Communication	174,563	182,000	176,000
04. Supplies	18,906	19,100	36,800
05. Professional Services	1,720	2,500	1,000
06. Purchased Services	46,539	49,900	35,900
07. Property, Furnishings and Equipment	3,594	4,200	2,800
	254,146	267,100	253,900
02. Revenue Federal	(100)	0	0
02. Revenue Provincial	(97,098)	(80,000)	(80,000)
Total: Administrative Support	156,948	187,100	173,900
CAPITAL			
1.2.03. ADMINISTRATIVE SUPPORT			
07. Property, Furnishings and Equipment	61,226	90,000	90,000
Total: Administrative Support	61,226	90,000	90,000
TOTAL: GENERAL ADMINISTRATION	914,922	987,800	950,100
GENERAL GOVERNMENT			
CURRENT			
1.3.01. GOVERNMENT PERSONNEL COSTS			
01. Salaries	0	0	1,886,200
02. Employee Benefits	40,392,332	42,553,100	43,458,200
	40,392,332	42,553,100	45,344,400
02. Revenue Provincial	(141,008)	(125,000)	(125,000)
Total: Government Personnel Costs	40,251,324	42,428,100	45,219,400
TOTAL: GENERAL GOVERNMENT	40,251,324	42,428,100	45,219,400
TOTAL EXECUTIVE AND SUPPORT SERVICES	41,406,403	43,681,500	46,435,100

DEPARTMENT OF FINANCE (CONTINUED)

	Actual	Estimates	
		Amended	Original
	\$	\$	\$
FINANCIAL ADMINISTRATION			
FINANCIAL ADMINISTRATION			
<i>CURRENT</i>			
2.1.01. PENSIONS ADMINISTRATION			
01. Salaries	1,477,366	1,562,900	1,605,700
02. Employee Benefits	7,958	8,300	3,000
03. Transportation and Communication	45,816	46,400	44,900
04. Supplies	17,182	18,000	10,000
05. Professional Services	185,511	185,600	150,000
06. Purchased Services	32,621	36,000	34,000
07. Property, Furnishings and Equipment	888	2,000	3,000
12. Information Technology	228,489	422,400	431,000
	<u>1,995,831</u>	<u>2,281,600</u>	<u>2,281,600</u>
02. Revenue Provincial	<u>(2,131,049)</u>	<u>(2,281,600)</u>	<u>(2,281,600)</u>
Total: Pensions Administration	<u>(135,218)</u>	<u>0</u>	<u>0</u>
2.1.02. DEBT MANAGEMENT			
01. Salaries	597,413	625,900	638,400
02. Employee Benefits	100	1,000	1,000
03. Transportation and Communication	13,450	15,600	15,600
04. Supplies	2,560	2,700	2,700
06. Purchased Services	105	1,300	1,300
12. Information Technology	18,229	36,600	36,600
	<u>631,857</u>	<u>683,100</u>	<u>695,600</u>
02. Revenue Provincial	<u>(298,978)</u>	<u>(317,000)</u>	<u>(317,000)</u>
Total: Debt Management	<u>332,879</u>	<u>366,100</u>	<u>378,600</u>
2.1.03. FINANCIAL ASSISTANCE			
10. Grants and Subsidies	2,150,000	3,200,000	4,400,000
02. Revenue Provincial	<u>(50,712,542)</u>	<u>(47,900,000)</u>	<u>(47,900,000)</u>
Total: Financial Assistance	<u>(48,562,542)</u>	<u>(44,700,000)</u>	<u>(43,500,000)</u>
2.1.04. SPECIAL ASSISTANCE			
09. Allowances and Assistance	222,213	370,000	370,000
Total: Special Assistance	<u>222,213</u>	<u>370,000</u>	<u>370,000</u>
TOTAL: FINANCIAL ADMINISTRATION	<u>(48,142,668)</u>	<u>(43,963,900)</u>	<u>(42,751,400)</u>

DEPARTMENT OF FINANCE (CONTINUED)

FINANCIAL ADMINISTRATION (con't)

TAXATION AND FISCAL POLICY

CURRENT

2.2.01. TAX POLICY

	Actual	Estimates	
	\$	Amended	Original
		\$	\$
01. Salaries	437,747	449,700	449,700
02. Employee Benefits	225	300	300
03. Transportation and Communication	20,475	21,400	20,400
04. Supplies	3,963	7,700	1,700
05. Professional Services	0	0	4,500
06. Purchased Services	184,583	184,600	4,800
Total: Tax Policy	646,993	663,700	481,400

2.2.02. FISCAL POLICY

01. Salaries	234,977	238,100	238,100
02. Employee Benefits	0	300	300
03. Transportation and Communication	15,340	16,500	25,400
04. Supplies	2,582	3,200	3,200
05. Professional Services	0	2,300	2,300
06. Purchased Services	342	2,700	2,700
Total: Fiscal Policy	253,241	263,100	272,000

2.2.03. PROJECT ANALYSIS

01. Salaries	408,852	420,100	472,500
02. Employee Benefits	0	1,100	1,100
03. Transportation and Communication	4,031	6,100	17,600
04. Supplies	4,004	8,700	8,700
05. Professional Services	14,000	14,000	10,000
06. Purchased Services	2,274	4,400	1,900
07. Property, Furnishings and Equipment	0	800	800
Total: Project Analysis	433,161	455,200	512,600

2.2.04. TAX ADMINISTRATION

01. Salaries	2,243,993	2,367,700	2,375,800
02. Employee Benefits	2,248	3,700	3,700
03. Transportation and Communication	95,419	98,700	171,200
04. Supplies	30,529	32,400	79,600
05. Professional Services	8,485	10,800	25,400
06. Purchased Services	62,431	66,600	22,600
10. Grants and Subsidies	3,000	3,000	3,000
12. Information Technology	276,647	347,500	347,500
	2,722,752	2,930,400	3,028,800
02. Revenue Provincial	(15,150)	0	0
Total: Tax Administration	2,707,602	2,930,400	3,028,800

TOTAL: TAXATION AND FISCAL POLICY

4,040,997	4,312,400	4,294,800
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DEPARTMENT OF FINANCE (CONTINUED)

	<u>Actual</u>	<u>Estimates</u>	
		<u>Amended</u>	<u>Original</u>
	\$	\$	\$
FINANCIAL ADMINISTRATION (con't)			
ECONOMICS AND STATISTICS			
<i>CURRENT</i>			
2.3.01. ECONOMICS AND STATISTICS			
01. Salaries	1,459,128	1,544,600	1,693,400
02. Employee Benefits	3,793	4,800	1,800
03. Transportation and Communication	54,271	102,400	112,400
04. Supplies	42,235	42,900	23,900
05. Professional Services	141,950	142,900	32,900
06. Purchased Services	45,284	47,300	55,300
07. Property, Furnishings and Equipment	17,401	17,700	25,700
12. Information Technology	168,692	515,600	515,600
	<u>1,932,754</u>	<u>2,418,200</u>	<u>2,461,000</u>
01. Revenue Federal	(41,613)	(1,105,400)	(1,105,400)
02. Revenue Provincial	(647,618)	(270,000)	(270,000)
Total: Economics and Statistics	<u>1,243,523</u>	<u>1,042,800</u>	<u>1,085,600</u>
TOTAL: ECONOMICS AND STATISTICS	<u>1,243,523</u>	<u>1,042,800</u>	<u>1,085,600</u>
TOTAL FINANCIAL ADMINISTRATION	<u>(42,858,148)</u>	<u>(38,608,700)</u>	<u>(37,371,000)</u>
TOTAL DEPARTMENT	<u>(1,451,745)</u>	<u>5,072,800</u>	<u>9,064,100</u>

DEPARTMENT OF FINANCE (CONTINUED)

UNAUDITED SUMMARY OF GROSS EXPENDITURES AND UNEXPENDED BALANCES

	\$
Original estimates (net)	9,064,100
Add (subtract) transfers of estimates	(3,991,300)
Addback revenue estimates net of transfers	52,079,000
Original estimates of expenditure	57,151,800
Supplementary supply	0
Total appropriation	57,151,800
Total net expenditure	(1,451,745)
Add revenue less transfers	54,085,156
Total Gross expenditure (budgetary non-statutory)	52,633,411
Unexpended balance of appropriation	4,518,389

Unaudited Summary of Cash Payments and Receipts

	Payments	Receipts	Net
	\$	\$	\$
Current account	52,572,185	54,085,156	(1,512,971)
Capital account	61,226	0	61,226
	52,633,411	54,085,156	(1,451,745)

Note: All expenditure and revenue figures (cash-based) included in this document are based on the Public Accounts.